

YEAR 1998

ANNUAL REPORT  
OF

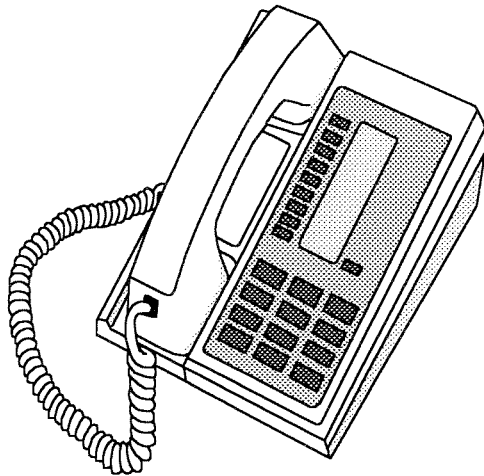
**RECEIVED**

APR 23 1999

MONT. P. S. COMMISSION

# Southern Montana Telephone Company

TELEPHONE UTILITY



TO THE  
PUBLIC SERVICE COMMISSION  
STATE OF MONTANA  
1701 PROSPECT AVENUE  
P.O. BOX 202601  
HELENA, MT 59620-2601

Check No. 4347  
Southern Montana Telephone Co

# Telephone Annual Report

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# Telephone Annual Report

## Instructions

### General

1. A Microsoft EXCEL 97 workbook of the annual report is being provided on computer disk for your convenience. The workbook contains the schedules of the annual report. Each schedule is on the worksheet named that schedule. For example, Schedule 1 is on the sheet titled "Schedule 1". By entering your company name in the cell named "Company" of the first worksheet, the spreadsheet will put your company name on all the worksheets in the workbook. The same is true for inputting the year of the report in the cell named "YEAR". You can "GOTO" the proper cell by using the F5 key and selecting the name of the cell.
2. The workbook contains input sections that are unprotected, and non-input sections that are protected. Cell protection can be disabled or enabled through "TOOLS – PROTECTION – UNPROTECT SHEET" on your toolbar. Formulas and checks are built into most of the templates.
3. Use of the disk is optional. The disk and the report cover shall be returned when the report is filed. There are macros built into the workbook to assist you with the report. An explanation of the macros is on the "Control" worksheet at the front of the workbook. The explanations start at cell A1.
4. All forms must be filled out in permanent ink and be legible. Note: Even if the computer disk is used, a printed version of the report shall be filed. The orientation and margins are set up on each individual worksheet and should print on one page. If you elect not to use the disk, please format your reports to fit on one 8.5" by 11" page with the left binding edge (top if landscaped) set at .85", the right edge (bottom if landscaped) set at .4", and the remaining two margins at .5". You may select specific schedules to print – See the worksheet "CONTROL".
5. Unless otherwise indicated, all information required in these schedules shall be from the accounts prescribed in 47 C.F.R. Part 32 and the definitions and instructions therein will apply to this report wherever applicable.
6. Information on financial schedules may be rounded to thousands of dollars for companies with over 5,000 access lines. Companies submitting schedules rounded to thousands should so indicate at the top of the schedule.
7. Where more space is needed or more than one schedule is needed additional schedules may be attached and should be included directly behind the original schedule to which it pertains and be labeled accordingly (for example, Schedule 1A).
8. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further information as is necessary to make the required schedules not misleading.

9. The following schedules should be filled out with information on a total company basis:

Schedules 1 - 4  
Schedule 10  
Schedules 13 - 17  
Schedule 19  
Schedule 20, Page 1 of 2  
Schedules 33 and 34

All other schedules should be filled out with Montana specific data. Financial schedules should include all amounts originating in Montana or allocated to Montana from other jurisdictions.

10. All companies owned by another company shall attach a corporate structure chart of the holding company.
11. The following schedules are not required to be filled out or submitted by companies with less than 5,000 access lines:
- Schedule 6  
Schedules 17 and 18  
Schedule 21
12. Schedules that have no activity during the year or are not applicable to the respondent should be marked as not applicable and submitted with the report.
13. Companies with under 5,000 lines may use summary accounts and should leave lines for subaccounts blank. Summary accounts are noted with an asterisk and subaccounts that are not required are noted with a caret.
14. Companies with over 5,000 lines must complete schedules to all required subaccount detail.
15. FCC Form M sheets may not be substituted in lieu of completing annual report schedules.
16. Common sense must be used when filling out all schedules.

### **Specific Instructions**

#### **Schedules 3 through 9**

1. **Schedules 3, 4, and 9** should include all notes to the financial statements required by the FCC or included in the financial statements issued as audited financial statements. These notes should be included in the report directly behind the schedules and should be labeled appropriately (Schedule 3A, etc.).
2. **Schedule 5** may be omitted for companies doing business only in Montana.
3. **Schedule 6** is not required for companies with under 5,000 lines.

4. **Schedule 7** must be completed by all companies. For companies under 5,000 lines, this schedule may be completed on a total state basis. Any such company completing the form on a total state basis shall indicate this fact clearly on the form.
5. **Schedule 8** - Companies with less than 5,000 lines are not required to fill out the intrastate portion. The regulated rate base must be separated from the deregulated rate base but this may be done on a total state basis. Any company so doing shall clearly indicate this on the form.
6. Only accounts designated on **Schedule 8** may be included in rate base. Only companies who have specifically been authorized in a Commission order to include cash working capital in rate base may fill out line 8 on Schedule 8. Cash working capital must be calculated using the methodology approved in the Commission order. The most recent Commission Order, and Docket, specifying cash working capital shall be noted on the schedule.
7. **Schedule 9** - Instructions to complete are similar to those used for the Statement of Cash Flows in the FCC Form M.

#### **Schedule 10**

1. For the purpose of this schedule, nonofficial companies shall include any company in which the respondent has an ownership interest which does not meet the definition of an affiliated company set out in 47 C.F.R. Section 32.9000. This schedule shall not include telecommunications accounts receivable from other customers.

#### **Schedule 11**

1. All amounts listed in Column f that represent individual items for which the higher of cost or market value was in excess of \$50,000 for companies with under 5,000 lines and in excess of \$100,000 for companies with over 5,000 lines must be fully explained in notes to this schedule. The explanation must include the plant description and location, the original cost, the net book cost, the market value, the value at which it was transferred or the price at which it was sold, and the party to which it was transferred or sold.

#### **Schedule 12**

1. Respondents shall list each item amounting individually to \$100,000 or more and report all others in the aggregate.
2. Amounts in Column f relating to individual items exceeding \$50,000 shall be fully explained.

#### **Schedule 15**

1. Line 1 must be completed by all companies for the most recent calendar year. The retention and price/earnings ratios shall be calculated on a year end basis. Enter the actual year end market price in the "Year Ended" row. If the computer disk is used, enter the year end market price in the "High" column.
2. Lines starting at 9 shall be completed for each of the twelve months of the report year for all companies with over 5,000 access lines. Earnings per share and dividends per share shall be reported on a quarterly basis and entries shall be made only to the months that end the respective quarters (for example, March, June, September, and December.)

**Schedule 19**

1. All companies are required to submit this form. Companies with more than one plan (for example, both a retirement plan and a deferred savings plan) shall complete a schedule for each plan.
2. Companies with defined benefit plans must complete the entire form using FASB 87 and 132 guidelines.
3. Interest rate percentages shall be listed to two decimal places.

**Schedule 20**

1. All changes to the employee benefit plans shall be explained in a narrative on lines 15 and 16. All cost containment measures implemented in the reporting year shall be explained and quantified in a narrative on lines 15 & 16. All assumptions used in quantifying cost containment results shall be disclosed.
2. The schedule shall be filled out using FASB 106 and 132 guidelines.

**Schedule 21**

1. Respondents shall disclose all payments made during the year where the aggregate payment to the recipient was \$25,000 or more. Payments must include fees, retainers, commissions, gifts, contributions, assessments, bonuses, subscriptions, allowances for expenses or any other form of payment for services or as a donation.

**Schedule 23**

1. Respondents shall provide an attached sheet detailing the type and corresponding number of access lines for all entries in Column L (Other).

**Schedule 24**

1. Column (b). For each wire center that has a configuration of "Remote", Column (b) shall also reflect the respective "Host".
2. Column (c). Examples of Types of Switches are: Digital, Step by Step, and Crossbar.

**Schedule 25**

1. This schedule must be completed by all companies for the year following the reporting year.

**Schedule 26**

1. Respondents shall either report construction technicians and splicers as separate categories or footnote the appropriate categories and indicate the number of (1) construction technicians; and (2) splicers.

#### **Schedule 27**

1. Include in column (d) ALL additional forms of compensation, including, but not limited to: deferred compensation, deferred savings plan, profit sharing, supplemental or non-qualified retirement plan, employee stock ownership plan, restricted stock, stock options, stock appreciation rights, performance share awards, dividend equivalent shares, mortgage payments, use of company cars or car lease payments, tax preparation consulting, financial consulting, home security systems, company-paid physicals, subscriptions to periodicals, memberships, association or club dues, tuition reimbursement, employee discounts, and spouse travel.
2. The above compensation items shall be listed separately. Where more space is needed additional schedules may be attached and shall be included directly behind the original schedule to which it pertains.
3. If respondent is claiming protected status of salary information both a proprietary and non-proprietary copy of this schedule shall be filed. On the non-proprietary copy respondent shall indicate which columns respondent maintains are proprietary. A note stating that such information is being provided separately shall be included on the schedule. In no case shall either Column (a) - Name/Position, or Column (g) - Percent Increase Total Compensation, be considered proprietary. Respondent shall provide all requested information on the proprietary copy.

#### **Schedule 28**

1. Respondents shall provide all executive compensation information in conformance with that required by the Securities and Exchange Commission (SEC) (Regulation S-K Item 402, Executive Compensation).
2. Include in column (d) ALL additional forms of compensation, including, but not limited to: deferred compensation, deferred savings plan, profit sharing, supplemental or non-qualified retirement plan, employee stock ownership plan, restricted stock, stock options, stock appreciation rights, performance share awards, dividend equivalent shares, mortgage payments, use of company cars or car lease payments, tax preparation consulting, financial consulting, home security systems, company-paid physicals, subscriptions to periodicals, memberships, association or club dues, tuition reimbursement, employee discounts, and spouse travel.
3. All items included in Column (d) - Other Compensation shall be listed separately. Where more space is needed additional schedules may be attached and shall be included directly behind the original schedule.
4. In addition, respondents shall attach a copy of the executive compensation information provided to the SEC.

#### **Schedule 29**

1. Information from this schedule is consolidated with information from other Utilities and reported to the National Association of Regulatory Utility Commissioners (NARUC). Your assistance in completing this schedule, even though information may be located in other areas of the annual report, expedites reporting to the NARUC and is appreciated.



**Schedules 33 and 34**

1. Respondents shall report all transactions with affiliated companies.
2. Column (c). Respondents shall indicate in column (c) the method used to determine the price. Respondents shall indicate if a contract is in place between the Affiliate and the Utility. If a contract is in place, respondents shall indicate the year the contract was initiated, the term of the contract and the method used to determine the contract price.
3. Column (c). If the method used to determine the price is different than the previous year, respondents shall provide an explanation, including the reason for the change.

**Schedule 35**

1. Respondents shall provide an attached sheet detailing the account and the amount for all entries made to Lines 9 and 16.
2. Only companies who have specifically been authorized in a Commission Order to include cash working capital in rate base may include cash working capital in lines 9 or 16. Cash working capital must be calculated using the methodology approved in the Commission Order. The Commission Order specifying cash working capital shall be noted on the attached sheet.
3. Respondents shall indicate, for each adjustment on lines 30 through 42, if the amount is updated or if it is from the last rate case. All adjustments shall be calculated using Commission methodology.

**Schedule 36**

1. Respondents shall list the amount of tax accrued or paid for the fiscal year attributable to Montana sources for each of the listed taxes

**Schedule 37**

1. Respondents shall list the amount of Universal Service Funds received from Montana and from the federal government.

**General Information**

Year: 1998

1.	Legal Name of Respondent:	Southern Montana Telephone Company
2.	Name Under Which Respondent Does Business:	Southern Montana Telephone Company
3.	Date of Incorporation:	1944
4.	Address to send Correspondence Concerning Report:	PO Box 205, Wisdom, MT 59761
5.	Person Responsible for This Report:	Conrad Eklund, General Manager
5a.	Telephone Number:	406-689-3333
<b>Control Over Respondent</b>		
1.	If direct control over the respondent was held by another entity at the end of year provide the following:	
1a.	Name and address of the controlling organization or person:	
1b.	Means by which control was held:	
1c.	Percent Ownership:	

Board of Directors		
Line No.	Name of Director and Address (City, State) (a)	Fees Paid During Year (b)
1	Robert G. Helming Wisdom, MT 59761	6000
2	Michele Helming Wisdom, MT 59761	6000
3	Conrad Eklund Wisdom, MT 59761	6000
4		
5		
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16		
17		
18	<b>Chairman of the Board:</b> Robert G. Helming	
19		
20		

## Officers

Year: 1998

Line No.	Title of Officer (a)	Department Over Which Jurisdiction is Exercised (b)	Name and Address of Person Holding Office at Year End (c)
1	President	All Departments	Robert G. Helming
2			Wisdom, MT 59761
3	Vice President/Treasurer	All Departments	Michele Helming
4			Wisdom, MT 59761
5	Secretary	All Departments	Conrad Eklund
6			Wisdom, MT 59761
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## Total Company Balance Sheet

Year: 1998

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>CURRENT ASSETS:</b>		
2	1120	Cash and Equivalents		
3	1180	Telecommunications Accounts Receivable - Net	(SEE ATTACHED AUDITED FINANCIALS)	
4	1190	Other Accounts Receivable - Net		
5	1200	Notes Receivable - Net		
6	1210	Interest and Dividends Receivable		
7	1220	Materials and Supplies		
8	* 1280	Prepayments		
9	^ 1290	Prepaid Rents		
10	^ 1300	Prepaid Taxes		
11	^ 1310	Prepaid Insurance		
12	^ 1320	Prepaid Directory Expenses		
13	^ 1330	Other Prepayments		
14	1350	Other Current Assets		
15		<b>Total Current Assets</b>		
16		<b>NONCURRENT ASSETS:</b>		
17	1401	Investments in Affiliated Companies		
18	1402	Investments in Nonaffiliated Companies		
19	1406	Nonregulated Investments		
20	1407	Unamortized Debt Issuance Expense		
21	1408	Sinking Funds		
22	1410	Other Noncurrent Assets		
23	1438	Deferred Maintenance and Retirements		
24	1439	Deferred Charges		
25	1500	Other Jurisdictional Assets - Net		
26		<b>Total Noncurrent Assets</b>		
27		<b>PROPERTY, PLANT, &amp; EQUIPMENT:</b>		
28	2001	Telecommunications Plant in Service		
29	2002	Property Held for Future Telecommunications Use		
30	2003	Plant Under Construction - Short Term		
31	2004	Plant Under Construction - Long Term		
32	2005	Telecommunications Plant Adjustment		
33	2006	Nonoperating Plant		
34	2007	Goodwill		
35	3100	Accumulated Depreciation		
36	3200	Accumulated Depreciation - Held for Future Use		
37	3300	Accumulated Depreciation - Nonoperating		
38	3400	Accumulated Amortization		
39		<b>Net Property, Plant, &amp; Equipment</b>		
40		<b>TOTAL ASSETS</b>		

^ Subaccount of account marked with a \*.

## Total Company Balance Sheet

Year: 1998

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
41		<b>CURRENT LIABILITIES:</b>		
42	4010	Accounts Payable	(SEE ATTACHED AUDITED FINANCIALS)	
43	4020	Notes Payable		
44	4030	Advance Billing and Payments		
45	4040	Customer Deposits		
46	4050	Current Maturities - Long Term Debt		
47	4060	Current Maturities - Capital Leases		
48	4070	Income Taxes - Accrued		
49	4080	Other Taxes - Accrued		
50	4100	Net Current Deferred Operating Income Taxes		
51	4110	Net Current Deferred Nonoperating Income Taxes		
52	4120	Other Accrued Liabilities		
53	4130	Other Current Liabilities		
54		<b>Total Current Liabilities</b>		
55		<b>LONG-TERM DEBT:</b>		
56	4210	Funded Debt		
57	4220	Premium on Long-Term Debt		
58	4230	Discount on Long-Term Debt		
59	4240	Reacquired Debt		
60	4250	Obligations Under Capital leases		
61	4260	Advances From Affiliated Companies		
62	4270	Other Long-Term Debt		
63		<b>Total Long-Term Debt</b>		
64		<b>OTHER LIABILITIES AND DEFERRED CREDITS:</b>		
65	4310	Other Long-Term Liabilities		
66	4320	Unamort. Oper. Invest. Tax Credits - Net		
67	4330	Unamort. Nonoper. Invest. Tax Credits - Net		
68	4340	Net Noncurrent Deferred Oper. Income Taxes		
69	4350	Net Noncurrent Deferred Nonoper. Income Taxes		
70	4360	Other Deferred Credits		
71	4370	Other Jurisdictional Liab. and Def. Credits		
72		<b>Total Other Liabilities and Deferred Credits</b>		
73		<b>STOCKHOLDERS' EQUITY:</b>		
74	4510	Capital Stock		
75	4520	Additional Paid-In Capital		
76	4530	Treasury Stock		
77	4540	Other Capital		
78	4550	Retained Earnings		
79		<b>Total Stockholders' Equity</b>		
80		<b>TOTAL LIAB. AND STOCKHOLDERS' EQUITY</b>		

Schedule 3A



1998 FINANCIAL STATEMENTS

## MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS

Seafirst Financial Center  
601 West Riverside, Suite 1800  
Spokane, WA 99201-0663

Phone 509.747.2600  
Toll Free 1.800.888.4065  
FAX 509.624.5129

Offices in Principal Cities of  
Washington, Oregon and California

Independent Auditor's Report

Board of Directors  
Southern Montana Telephone Company  
Wisdom, Montana

We have audited the accompanying balance sheets of Southern Montana Telephone Company as of December 31, 1998 and 1997, and the related statements of revenue, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Montana Telephone Company, as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 19, 1999, on our consideration of Southern Montana Telephone Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Moss Adams LLP

Spokane, Washington  
February 19, 1999

A member of  
**Moore  
Rowland  
INTERNATIONAL**

An association of independent  
accounting firms throughout the world

## Schedule 3C

## SOUTHERN MONTANA TELEPHONE COMPANY

## BALANCE SHEETS

DECEMBER 31, 1998 AND 1997

## ASSETS

	1998	1997
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 470,959	\$ 515,650
Investment in certificates of deposit, short-term, at amortized cost which approximates market (Note 4)	1,138,477	1,084,060
Subscriber receivables	52,353	59,627
Other accounts receivable	324,844	227,291
Income tax refund receivable (Note 9)	26,164	80,755
Supplies	38,010	27,546
Prepaid expenses	10,179	14,034
Other current assets	7,994	9,440
<i>TOTAL CURRENT ASSETS</i>	<u>2,068,980</u>	<u>2,018,403</u>
<b>NONCURRENT ASSETS</b>		
Investment in available for sale securities (Note 5)	614,874	652,080
Investment in certificates of deposit, long-term, at amortized cost which approximates market (Note 4)	682,229	235,000
Investment in held to maturity securities (Note 5)	115,000	123,776
Investment in affiliate	1,276	1,276
Investments in nonaffiliates (Note 6)	415,100	365,100
Nonregulated investments	54,044	60,826
Other assets	24,083	24,083
	<u>1,906,606</u>	<u>1,462,141</u>
<b>PROPERTY, PLANT, AND EQUIPMENT (Note 3)</b>		
Telecommunications plant in service	6,749,059	6,785,281
Telecommunications plant under construction	4,261	439
	<u>6,753,320</u>	<u>6,785,720</u>
Less accumulated depreciation and amortization	<u>2,964,850</u>	<u>2,759,247</u>
	<u>3,788,470</u>	<u>4,026,473</u>
	<u>\$ 7,764,056</u>	<u>\$ 7,507,017</u>



## SOUTHERN MONTANA TELEPHONE COMPANY

BALANCE SHEETS (CONTINUED)  
DECEMBER 31, 1998 AND 1997

## LIABILITIES AND STOCKHOLDERS' EQUITY

	1998	1997
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 109,384	\$ 69,565
Advance billing and payments	13,061	7,023
Customer deposits	2,310	2,160
Current maturities of long-term debt (Note 7)	125,896	122,442
Other accrued taxes	64,029	70,085
Accrued interest	8,791	8,952
Other accrued liabilities	120,247	104,148
<b>TOTAL CURRENT LIABILITIES</b>	<b>443,718</b>	<b>384,375</b>
<b>LONG-TERM DEBT (Note 7)</b>	<b>2,422,235</b>	<b>2,547,149</b>
<b>OTHER LIABILITIES AND DEFERRED CREDITS</b>		
Deferred investment credit (Note 9)	85,223	97,331
Deferred income taxes (Note 9)	907,630	867,480
	<b>992,853</b>	<b>964,811</b>
<b>CONTINGENCIES (Note 11)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$10 par value; authorized 5,000 shares; 2,907 shares issued	29,070	29,070
Paid-in capital	3,290	3,290
Retained earnings	4,776,069	4,474,453
	<b>4,808,429</b>	<b>4,506,813</b>
Less treasury stock, 1840 shares at cost	(916,408)	(916,408)
Unrealized gain on available for sale securities (Note 5)	13,229	20,277
	<b>3,905,250</b>	<b>3,610,682</b>
	<b>\$ 7,764,056</b>	<b>\$ 7,507,017</b>

## Total Company Income Statement

Year: 1998

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>	(SEE ATTACHED AUDITED FINANCIALS)	
2	5000	Basic Local Service Revenues		
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
19	6110	Network Support Expense		
20	6120	General Support Expense		
21	6210	Central Office Switching Expense		
22	6220	Operator Systems Expense		
23	6230	Central Office Transmission Expense		
24	6310	Information Origination/Termination Expense		
25	* 6410	Cable and Wire Facilities Expense		
26	^ 6431	Aerial Wire Expense		
27	^ 6441	Conduit Systems Expense		
28	6510	Other Property, Plant & Equipment Expense		
29	6530	Network Operations Expense		
30	6540	Access Expense		
31	6560	Depreciation and Amortization Expense		
32	6610	Marketing		
33	6620	Services		
34	6710	Executive and Planning		
35	6720	General and Administrative		
36	6790	Provision for Uncollectible Notes Receivable		
37		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	
41	7300	Nonoperating Income and Expense		
42	7400	Nonoperating Taxes		
43	7500	Interest and Related Items		
44	7600	Extraordinary Items		
45	7910	Effects of Juris. Ratemaking Diff. - Net		
46	7990	Nonregulated Net Income		
47		<b>NET INCOME (L.40+L.41-L.42-L.43-L.44+L.45-L.46)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.

## Schedule 4A

## SOUTHERN MONTANA TELEPHONE COMPANY

STATEMENTS OF REVENUE  
YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
OPERATING REVENUES		
Local network services	\$ 116,166	\$ 94,982
Interstate access (Note 10)	1,160,294	1,255,472
Intrastate access (Note 10)	435,474	409,838
Billing and collection	55,750	67,920
Miscellaneous	2,008	2,574
Nonregulated revenue	3,264	4,822
Uncollectible	(213)	(190)
	<u>1,772,743</u>	<u>1,835,418</u>
OPERATING EXPENSES		
Plant specific operations	275,202	302,347
Plant nonspecific operations	200,210	208,352
Depreciation	324,245	386,339
Customer operations	74,000	69,805
Corporate operations	416,370	370,980
Other taxes	124,319	117,247
Nonregulated	4,791	7,496
	<u>1,419,137</u>	<u>1,462,566</u>
<i>NET OPERATING INCOME</i>	<u>353,606</u>	<u>372,852</u>
NONOPERATING INCOME (EXPENSE)		
Interest and dividend income (Note 5)	142,302	141,198
Gain on sale of investments (Note 5)	51,988	118,170
Other income (expense)	(7,789)	14,843
Interest expense	(52,629)	(54,655)
	<u>133,872</u>	<u>219,556</u>
<i>INCOME BEFORE INCOME TAXES</i>	487,478	592,408
Income taxes (Note 9)	(160,863)	(228,845)
<i>NET INCOME</i>	<u>\$ 326,615</u>	<u>\$ 363,563</u>

The accompanying notes are an integral part of these statements.

## Schedule 4B

## SOUTHERN MONTANA TELEPHONE COMPANY

STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 1998 AND 1997

	Total	Stockholder's Equity	Accumulated Comprehensive Income	Comprehensive Income
Balance, December 31, 1996	\$ 3,349,165	\$ 3,326,843	\$ 22,322	
Net income	363,563	363,563	-	\$ 363,563
Unrealized losses on available for sale securities, net of tax (Note 5)	(2,045)	-	(2,045)	(2,045)
Dividends	(100,000)	(100,000)	-	
Comprehensive income				<u>\$ 361,518</u>
Balance, December 31, 1997	3,610,683	3,590,406	20,277	
Net income	326,615	326,615	-	\$ 326,615
Unrealized losses on available for sale securities, net of tax and reclassification adjustment (Note 5)	(7,048)	-	(7,048)	(7,048)
Dividends	(25,000)	(25,000)	-	
Comprehensive income				<u>\$ 319,567</u>
Balance, December 31, 1998	<u>\$ 3,905,250</u>	<u>\$ 3,892,021</u>	<u>\$ 13,229</u>	
Disclosure of 1998 reclassification amount:				
Unrealized holding gains during period	\$ 13,229			
Less reclassification adjustment for gains reported in net income	<u>20,277</u>			
Net unrealized losses on securities	<u>\$ (7,048)</u>			

The accompanying notes are an integral part of these statements.

# SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Significant Accounting Policies

#### *Nature of operations:*

Southern Montana Telephone Company (the Company) is a local exchange carrier (LEC) providing local telephone service, internet access, and access to long-distance telecommunications services. The Company serves commercial and residential customers in the southwestern Montana exchanges of Divide, Grant, Jackson, Wisdom, and Wise River. The Company is subject to the rules and regulations of the Federal Communications Commission (FCC) and the Montana Public Service Commission.

#### *Accounting policies:*

The financial statements of Southern Montana Telephone Company, have been prepared in conformity with generally accepted accounting principles applicable to regulated public utilities. Such accounting principles are consistent in all material respects with accounting prescribed by the FCC.

#### *Cash equivalents:*

Cash and cash equivalents are defined as short-term, highly liquid investments that were purchased with an original maturity of three months or less and are readily convertible into cash. Cash equivalents are stated at cost and primarily consist of money market funds.

#### *Nonregulated services:*

The Company accounts for its nonregulated activities as follows:

Nonregulated activities involving the joint use of regulated assets are accounted for within the prescribed regulated system of accounts for telephone company operations. These activities include directory services and other income items incidental to the provision of regulated telephone services.

Nonregulated activities not involving the joint use of regulated assets are accounted for separately from regulated activities. Plant facilities and other property and equipment are recorded as nonregulated investments. Operating revenues and the related expenses are separately presented as nonregulated revenues and expenses. These activities include payphone and internet services.

#### *Supplies:*

Supplies are stated at the lower of average cost or replacement market.

#### *Local service revenue:*

Billings for local service revenue are rendered monthly in advance. Advance billings are recorded as a liability and subsequently transferred to income in the period earned.

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 1. Significant Accounting Policies (Continued)

*Property, plant, and equipment:*

Property, plant, and equipment is stated at cost. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses.

Property, plant, and equipment is depreciated using straight-line methods in accordance with rates as approved by the Montana Public Service Commission, generally ranging from 3 to 29 years. In accordance with composite group depreciation methodology, when a portion of the Company's depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

*Investment securities:*

The Company's policy for investment securities is as follows:

- \* Trading securities: Trading securities consist of debt and equity securities that are bought and held principally for the purpose of selling in the near term and are reported at fair value, with unrealized gains and losses included in earnings. The Company did not hold any trading securities during 1998 or 1997.
- \* Securities held to maturity: Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held to maturity. Held to maturity securities are stated at amortized cost.
- \* Securities available for sale: Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value, with any unrealized gains and losses, net of deferred taxes, reported as a separate component of stockholders' equity.

*Valuation of accounts receivable:*

An estimate of collectibility of accounts receivable is made annually. Specific accounts are charged to bad debt expense when it is determined that the account will not be collected. The result of this method does not materially differ from generally accepted accounting principles.

*Allowance for funds used during construction (AFUDC):*

The Company records as income and capitalizes as a cost of construction the cost of financing large construction projects spanning a period greater than two months. The Company uses a weighted average interest rate based on total Company long-term debt. No such costs were capitalized in 1998 or 1997.

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 1. Significant Accounting Policies (Continued)

*Income taxes:*

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate primarily to employee benefit accruals. Deferred tax liabilities relate primarily to the use of accelerated depreciation methods for tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Investment tax credits, which were deferred prior to the TRA '86, are being amortized over the regulatory or service life of the assets which produced the credits.

*Concentration of credit risk:*

At various times throughout the year, cash balances exceed federally insured limits in individual financial institutions. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

*Accounting estimates:*

The preparing of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense and interstate access revenue settlements.

*Valuation of long-lived assets:*

The Company, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. For the year ended December 31, 1998, no assets were written down.

*Reclassifications:*

For comparability, certain of the 1997 figures have been reclassified in order to conform to the 1998 presentation. These reclassifications had no effect on net income or retained earnings as previously reported.

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 2. Accounting Change

The Company adopted Statement of Financial Accounting Standards (SFAS) Statement No. 130, *Reporting Comprehensive Income*, for the year ended December 31, 1998. This statement establishes standards for reporting and display of comprehensive income and its components in the financial statements. The December 31, 1997, financial statements have been reclassified to reflect the application of the provisions of this statement for comparative purposes. The adoption of SFAS No. 130 has no impact on the Company's net income, stockholders' equity, or cash flows. Management has elected to display its components of comprehensive income in the statement of stockholders' equity.

## Note 3. Property, Plant, and Equipment

Property, plant, and equipment balances together with accumulated depreciation and amortization consist of the following at December 31, 1998 and 1997:

	<u>Plant Account</u>	<u>Accumulated Depreciation</u>	<u>1998 Net Balance</u>	<u>1997 Net Balance</u>
Plant in service	\$ 6,749,059	\$ 2,964,850	\$ 3,784,209	\$ 4,026,034
Plant under construction	4,261	-	4,261	439
<i>TOTAL</i>	<u>\$ 6,753,320</u>	<u>\$ 2,964,850</u>	<u>\$ 3,788,470</u>	<u>\$ 4,026,473</u>



## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 3. Property, Plant, and Equipment (Continued)

Telecommunications plant in service balances together with accumulated depreciation consist of the following at December 31, 1998 and 1997:

	Plant Account	Accumulated Depreciation	1998 Net Balance	1997 Net Balance
General support assets:				
Land	\$ 38,451	\$ -	\$ 38,451	\$ 38,451
Motor vehicles	236,421	244,421	(8,000)	10,725
Other work equipment	329,842	331,278	(1,436)	(4,021)
Buildings	756,006	261,640	494,366	520,222
Furniture and office equipment	23,205	23,205	-	4,854
Furniture and office equipment ( five-year assets)	15,139	11,480	3,659	-
General purpose computer	65,543	2,883	62,660	69,403
Official Stations	11,471	7,120	4,351	5,236
Central office assets:				
Digital switching	1,024,504	142,714	881,790	943,502
Transmission equipment	747,532	295,597	451,935	501,571
Cable facilities:				
Buried cable	2,748,241	1,465,528	1,282,713	1,331,963
Fiber optic cable	752,704	178,984	573,720	604,128
	<u>\$ 6,749,059</u>	<u>\$ 2,964,850</u>	<u>\$ 3,784,209</u>	<u>\$ 4,026,034</u>

## Note 4. Certificates of Deposit

The amortized cost, unrealized gains and losses, and estimated fair value of certificates of deposit as of December 31 are summarized as follows:

	1998	1997
Amortized cost	\$1,820,706	\$1,319,060
Gross unrealized losses	(1,188)	(399)
<i>Estimated fair value</i>	<u>\$1,819,518</u>	<u>\$1,318,661</u>

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 4. Certificates of Deposit (Continued)

Maturities of certificates of deposit by contractual maturity as of December 31, 1998, are as follows:

	Amortized Cost	Estimated Fair Value
Maturing in one to five years	\$1,138,477	\$1,137,500
Maturing in five to ten years	682,229	682,018
	<u>\$1,820,706</u>	<u>\$1,819,518</u>

## Note 5. Investment in Debt and Marketable Equity Securities

The following is a summary of the Company's investment in available for sale securities:

## Available for Sale

## December 31, 1998

	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
Equity securities	\$397,790	\$16,554	\$414,344
Mutual funds	197,662	2,868	200,530
	<u>\$595,452</u>	<u>\$19,422</u>	<u>\$614,874</u>

## December 31, 1997

Equity securities	\$335,600	\$29,607	\$365,207
Mutual funds	283,305	3,568	286,873
	<u>\$618,905</u>	<u>\$33,175</u>	<u>\$652,080</u>

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 5. Investment in Debt and Marketable Equity Securities (Continued)

The following is a summary of the Company's investment in securities held to maturity:

## Held to Maturity

	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 1998</b>			
U.S. government agency obligations	\$ 15,000	\$ (3)	\$ 14,997
Other interest-bearing securities	100,000	-	100,000
	<u>\$115,000</u>	<u>\$ (3)</u>	<u>\$114,997</u>
<b>December 31, 1997</b>			
U.S. government agency obligations	\$ 15,000	\$ (100)	\$ 14,900
Other interest-bearing securities	108,776	(1,946)	106,830
	<u>\$123,776</u>	<u>\$(2,046)</u>	<u>\$121,730</u>

Maturities of securities held to maturity by contractual maturity as of December 31, 1998, are as follows:

	Amortized Cost	Estimated Fair Value
Maturing in one to five years	<u>\$115,000</u>	<u>\$114,997</u>

An unrealized gain on investment securities during the years ended December 31, 1998 and 1997, was reported as a separate component of stockholders' equity and consisted of the following:

	1998	1997
Unrealized holding gains	\$19,422	\$ 33,175
Deferred tax effect related to unrealized holding gains	<u>(6,193)</u>	<u>(12,898)</u>
	<u>\$13,229</u>	<u>\$ 20,277</u>

## Schedule 4J

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 5. Investment in Debt and Marketable Equity Securities (Continued)

A summary of investment earnings recognized in income during the years ended December 31 is as follows:

	<u>1998</u>	<u>1997</u>
Available for sale securities:		
Realized gains	\$ 51,988	\$118,172
Amortization of premiums	76,717	-
Interest earned	46,130	117,799
Dividends received	19,455	23,397
	<u>\$194,290</u>	<u>\$259,368</u>

## Note 6. Investments in Nonaffiliates

Investments in nonaffiliates consist of the following assets at December 31:

	<u>1998</u>	<u>1997</u>
Montana Advanced Information Network	\$415,000	\$365,000
Other nonmarketable telephone stocks and investments	100	100
	<u>\$415,100</u>	<u>\$365,100</u>

## Note 7. Long-Term Debt

Long-term debt is as follows at December 31:

	<u>1998</u>	<u>1997</u>
<i>Rural Utilities Service (RUS):</i>		
Mortgage notes payable, due in quarterly installments of \$43,752 including interest at 2.0%.	\$2,548,131	\$2,669,591
Less current portion	125,896	122,442
<i>LONG-TERM PORTION</i>	<u>\$2,422,235</u>	<u>\$2,547,149</u>

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 7. Long-Term Debt (Continued)

The notes are scheduled to be repaid at various times from 1998 to 2016. Substantially all assets of the Company are pledged to secure the RUS notes.

The terms of the mortgage agreements contain restrictions on the declaration or payment of cash dividends, redemption of capital stock, or investment in affiliated companies.

Aggregate maturities or payments required on principal under long-term debt obligations for each of the succeeding five years are as follows:

1999	\$ 125,896
2000	127,435
2001	130,007
2002	132,631
2003	135,309
Later years	1,896,853
	<u>\$2,548,131</u>

## Note 8. Retirement Plans

The Company participates in two multi-employer pension plans with the National Telephone Cooperative Association that cover substantially all of its employees.

The "retirement and security program" is a defined benefit plan. The Company's regular contribution to the retirement and security program and the amount charged to pension expense for the years ended December 31, 1998 and 1997, was \$50,240 and \$55,160, respectively.

The "savings plan" is a noncontributory defined contribution plan. The Company's contributions were \$22,563 and \$23,799 for the years ended December 31, 1998 and 1997, respectively.

## Schedule 4L

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 9. Income Taxes

The components of the net deferred tax asset (liability) recorded in the accompanying balance sheets at December 31, 1998 and 1997, are:

	1998	1997
Deferred tax assets:		
Accrued employee benefits	\$ 26,165	\$ 27,069
Alternative minimum tax credit	5,063	-
	<u>31,228</u>	<u>27,069</u>
Deferred tax liabilities:		
Prepaid insurance	(2,041)	-
Tax depreciation greater than book	(930,624)	(881,651)
Unrealized gain on available for sale securities	(6,193)	(12,898)
	<u>(938,858)</u>	<u>(894,549)</u>
<i>NET DEFERRED TAX LIABILITY</i>	<u>\$ (907,630)</u>	<u>\$ (867,480)</u>

Deferred income taxes originating from timing differences in excess of 34% and deferred investment credits are amortized over the regulatory life of the property which produced the deferred taxes. Deferred investment credits were \$85,223 and \$97,331 at December 31, 1998 and 1997, respectively.

For the years ended December 31, 1998 and 1997, there were income taxes receivable of \$26,164 and \$80,755, respectively.

The components of the provision (benefit) for income tax expense for the years ended December 31, 1998 and 1997, are:

	1998	1997
Deferred federal and state income tax	\$ 51,919	\$117,960
State income tax	23,429	18,756
Amortization of deferred investment tax credit	(12,108)	(14,515)
Prior year (over) under accrual	(16,224)	18,547
Current income tax	113,847	88,097
	<u>\$160,863</u>	<u>\$228,845</u>

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 9. Income Taxes (Continued)

The income tax provision (benefit) differs from the amount of income tax determined by applying the federal income tax rate to pretax income from continuing operations for the years ended December 31, 1998 and 1997, due to the following:

	<u>1998</u>	<u>1997</u>
Computed expected tax expense	\$165,743	\$201,419
Increase (decrease) in income taxes resulting from:		
Dividend income exclusion	(4,526)	(5,569)
Prior year under (over) accrual	(16,224)	18,547
Amortization of deferred investment tax credit	(12,108)	(14,515)
Change in deferred income tax	4,634	22,095
State income tax, net of federal deduction	23,469	12,379
Other	(125)	(5,511)
	<u>\$160,863</u>	<u>\$228,845</u>

## Note 10. Access Revenues

The Company's access revenues are determined by industry-regulated procedures for originating and terminating long-distance calls.

*Intrastate:*

Prior 1998, the Company participated in TECOM (Telephone Exchange Carriers of Montana) to negotiate intrastate access rates. In December 1997, Southern Montana withdrew from TECOM and beginning in January 1998 began charging intrastate access based on tariffed rates authorized by the Montana State Public Commission.

*Interstate:*

Revenues for interstate toll services are based on the Company's participation in the revenue pools administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. Revenues are determined by annually prepared separations and interstate access cost studies. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations and network traffic measurements. Additionally, the studies are subject to a 24 month pool adjustment period and a final review and acceptance by pool administrators. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 1998 and 1997.

## SOUTHERN MONTANA TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

## Note 11. Workers' Compensation

The Company is a member of the Montana Electric and Telephone Systems Self-Insured Workers' Compensation Pool (the Pool). The Pool covers potential liability for workers' compensation and occupational disease to employees and dependents of deceased employees of all members in the Pool. The Company is jointly and severally liable with the other members for the full amount of all known and unknown claims.

## Note 12. Related Party Transactions

The Company leases its office building from Robert G. and Michele Helming, sole shareholders, officers, and directors of the Company. The lease calls for monthly payments of \$2,200 through December 31, 2001. Following is a summary of minimum rental payments under the current lease for the four years subsequent to December 31, 1998:

1999	\$ 26,400
2000	26,400
2001	26,400
2002	26,400
	<hr/>
	\$105,600



## Montana Total State Income Statement

Year: 1998

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	(NOT APPLICABLE - DOING BUSINESS IN MONTANA ONLY)	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
19	6110	Network Support Expense		
20	6120	General Support Expense		
21	6210	Central Office Switching Expense		
22	6220	Operator Systems Expense		
23	6230	Central Office Transmission Expense		
24	6310	Information Origination/Termination Expense		
25	* 6410	Cable and Wire Facilities Expense		
26	^ 6431	Aerial Wire Expense		
27	^ 6441	Conduit Systems Expense		
28	6510	Other Property, Plant & Equipment Expense		
29	6530	Network Operations Expense		
30	6540	Access Expense		
31	6560	Depreciation and Amortization Expense		
32	6610	Marketing		
33	6620	Services		
34	6710	Executive and Planning		
35	6720	General and Administrative		
36	6790	Provision for Uncollectible Notes Receivable		
37		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.

## Montana Intrastate Income Statement

Year: 1998

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	(NOT APPLICABLE - DOING BUSINESS IN MONTANA ONLY)	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
19	6110	Network Support Expense		
20	6120	General Support Expense		
21	6210	Central Office Switching Expense		
22	6220	Operator Systems Expense		
23	6230	Central Office Transmission Expense		
24	6310	Information Origination/Termination Expense		
25	* 6410	Cable and Wire Facilities Expense		
26	^ 6431	Aerial Wire Expense		
27	^ 6441	Conduit Systems Expense		
28	6510	Other Property, Plant & Equipment Expense		
29	6530	Network Operations Expense		
30	6540	Access Expense		
31	6560	Depreciation and Amortization Expense		
32	6610	Marketing		
33	6620	Services		
34	6710	Executive and Planning		
35	6720	General and Administrative		
36	6790	Provision for Uncollectible Notes Receivable		
37		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.

## Montana Intrastate Regulated Income Statement

Year: 1998

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	(NOT APPLICABLE - DOING BUSINESS IN MONTANA ONLY)	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
19	6110	Network Support Expense		
20	6120	General Support Expense		
21	6210	Central Office Switching Expense		
22	6220	Operator Systems Expense		
23	6230	Central Office Transmission Expense		
24	6310	Information Origination/Termination Expense		
25	* 6410	Cable and Wire Facilities Expense		
26	^ 6431	Aerial Wire Expense		
27	^ 6441	Conduit Systems Expense		
28	6510	Other Property, Plant & Equipment Expense		
29	6530	Network Operations Expense		
30	6540	Access Expense		
31	6560	Depreciation and Amortization Expense		
32	6610	Marketing		
33	6620	Services		
34	6710	Executive and Planning		
35	6720	General and Administrative		
36	6790	Provision for Uncollectible Notes Receivable		
37		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.

**Average Rate Base - Total State**

Year: 1998

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	6733921	6785280
2	3100	Accumulated Depreciation	2953370	2759245
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	38011	27546
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>	<b>3818562</b>	<b>4053581</b>

(NOT APPLICABLE-UNDER 5000 ACCESS LINES)

**Average Rate Base - Intrastate**

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service		
2	3100	Accumulated Depreciation		
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies		
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>		

**Average Rate Base - Regulated Intrastate**

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service		
2	3100	Accumulated Depreciation		
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies		
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>		

## Statement of Cash Flows

Year: 1998

Line No.	Item Description (a)	Amount (b)	Amount (c)
1	<b>Increase/(decrease) in Cash &amp; Cash Equivalents</b>		
2	<b>Cash Flows from Operating Activities:</b>		
3	Net Income	(SEE ATTACHED STATEMENT OF CASH FLOWS)	
4	Reconciliation Adjustments:		
5	Depreciation & Amortization		
6	Provision for Accounts Receivable Losses		
7	Deferred Income Taxes - Net		
8	Unamortized Investment Tax Credits (ITCs) - Net		
9	Allowance for Funds Used During Construction (AFUDC)		
10	Change in Operating Receivables - Net		
11	Change in Materials, Supplies & Inventories - Net		
12	Change in Operating Payables & Accrued Liabilities - Net		
13	Change in Other Assets & Deferred Credits - Net		
14	Change in Other Liabilities & Deferred Credits - Net		
15	Other (explained on back of this page)		
16	Total Adjustments		
17	<b>Net Cash Provided by/(Used in) Operating Activities</b>		
18	<b>Cash Inflows/Outflows From Investing Activities:</b>		
19	Construction/Acquisition of Property, Plant & Equipment (net of		
20	AFUDC & Capital Lease Related Acquisitions)		
21	Proceeds from Disposals of Property, Plant & Equipment		
22	Investments In & Advances to Affiliates		
23	Proceeds from Repayment of Advances		
24	Other Investing Activities (explained on back of this page)		
25	<b>Net Cash Provided by/(Used in) Investing Activities</b>		
26	<b>Cash Flows from Financing Activities:</b>		
27	Net Incr./(Decr.) in Short-Term Debt, Original maturity <= 3 mo.		
28	Advances from Affiliates		
29	Repayment of Advances from Affiliates		
30	Proceeds from Issuances of Long-Term Debt		
31	Repayment of Long-Term Debt		
32	Payment of Capital Lease Obligations		
33	Proceeds from Issuing Common Stock/Parent Co. Equity Investment		
34	Repurchase of Treasury Shares		
35	Dividends Paid		
36	Other Financing Activities (explained on back of this page)		
37	<b>Net Cash Provided by Financing Activities</b>		
38	<b>Effect of Exchange Rate Changes on Cash</b>		
39	<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		
40	<b>Cash &amp; Cash Equivalents at Beginning of Period</b>		
41	<b>Cash &amp; Cash Equivalents at End of Period</b>		

## Schedule 9A

## SOUTHERN MONTANA TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 326,615	\$ 363,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	324,245	386,339
Amortization of discount on certificates of deposit	(76,664)	(91,313)
Amortization of deferred investment tax credit	(12,108)	(14,515)
Increase in cash surrender value of life insurance	-	(24,083)
Net realized gain on securities available for sale	(47,315)	(115,986)
Deferred income taxes	40,151	116,907
(Increase) decrease in:		
Accounts receivable	(90,279)	(38,953)
Federal income tax receivable	54,591	(74,441)
Supplies	(10,465)	1,377
Other assets	12,083	33,768
Increase (decrease) in:		
Accounts payable and accrued expenses	55,757	(411,357)
Advance payments and customer deposits	6,188	6,644
Accrued taxes	(6,056)	13,508
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES</i>	<u>576,743</u>	<u>151,458</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to telephone plant	(142,238)	(240,629)
Proceeds from disposals of plant	55,996	11,689
Proceeds from sales of investments	2,028,820	2,166,605
Purchase of investments	<u>(2,417,552)</u>	<u>(1,961,530)</u>
<i>NET CASH USED BY INVESTING ACTIVITIES</i>	<u>(474,974)</u>	<u>(23,865)</u>

## Schedule 9B

## SOUTHERN MONTANA TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of long-term debt	\$ (121,460)	\$ (119,088)
Dividends paid	(25,000)	(100,000)
<i>NET CASH USED BY FINANCING ACTIVITIES</i>	<i>(146,460)</i>	<i>(219,088)</i>
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	<i>(44,691)</i>	<i>(91,495)</i>
Cash and cash equivalents at beginning of year	515,650	607,145
Cash and cash equivalents at end of year	\$ 470,959	\$ 515,650
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ 53,025	\$ 55,221
Income taxes	\$ 74,332	\$ 199,801

## Receivables and Investments-Affiliated &amp; Nonaffiliated Companies

ar: 1998

Line No.	Name of Affiliate or Company (a)	Account 1160 Temporary Investments (b)	Account 1180 Telecom. Accounts Receivable (c)	Account 1181 Accts. Rec. Telecom. Allowance (d)	Account 1190 Other Accounts Receivable (e)	Account 1191 Accounts Receivable Allow. - Other (f)	Account 1200 Notes Receivable (g)	Account 1201 Notes Receivable Allowance (h)	Account 1210 Interest and Dividends Receivable (i)	Account 1401 Investments in Affil. Companies (j)	Account 1402 Investments in Nonaffil. Companies (k)
1	Sel Yr USA Portfolio										63579
2	Sel Intl Portfolio										43351
3	Templeton Dragon Fd										15765
4	C-cube										9844
5	RJ Reynolds										13572
6	Travelers(now Citigroup)										80150
7	Halliburton										26208
8	SMCC										
9	Masci, Inc.									1276	
10	Sterling Commerce										100
11	Household Intl										15989
12	Hewlett Packard										19688
13	N. Ind Pub Svc Co										31449
14	Technology Call Portfolio										20150
15	Chevron										8229
16	Advanced Fibre Comm										16823
17	Phillips Petro										3867
18	Cambridge Tech										6881
19	American Home Products										7354
20	Computer Sciences										12977
21	Select 10 Portfolio(Spring)										16522
22	Citigroup										90732
23	Main, Inc.										77040
24	GTE										415000
25											15813
26											
27											
28											
29											
30	<b>Totals</b>									1276	1011083



## Net Plant in Service - Detail

Year: 1998

Line No.	Account (a)	Description (b)	Beginning of Year Balance (c)	Additions (d)	Retirements (e)	Sales & Transfers (f)	End of Year Account 2001 Balance (g)	Year End Accumulated Depreciation (h)	End of Year Net Plant Balance (i)	
1	* 2110	Land and Support Assets	1551907	71921	159220	15139	1449469		1449469	check 586042
2	^ 2111	Land	38451				38451		38451	
3	^ 2112	Motor Vehicles	262691	37857	64127		236421	244421	-8000	
4	^ 2113	Aircraft								
5	^ 2114	Special Purpose Vehicles								
6	^ 2115	Garage Work Equipment								
7	^ 2116	Other Work Equipment	354906	34064	59128		329842	331278	-1436	
8	^ 2121	Buildings	756006				756006	261640	494366	
9	^ 2122	Furniture								
10	^ 2123	Office Equipment	63473		25129	15139	23205	23205		
11	^ 2124	General Purpose Computers	76380		10836		65544	2883	62661	
12	2211	Analog Electronic Switching								
13	2212	Digital Electronic Switching								
14	2215	Electro-Mechanical Switching	1018369	6135			1024504	142714	881790	
15	2220	Operator Systems								
16	2231	Radio Systems								
17	2232	Circuit Equipment	747532				747532	295596	451936	check 4620
18	* 2310	Information Orig & Term Equip	11471				11741	7121	4620	
19	^ 2311	Station Apparatus	11471				11741	7121	4620	
20	^ 2321	Customer Premises Wiring								
21	^ 2341	Large Private Branch Exchanges								
22	^ 2351	Public Telephone Term. Equip.								
23	^ 2362	Other Terminal Equipment								
24	2411	Poles								
25	* 2420	Cable and Wire Facilities	3456003	60360	15418		3500945	1644512	1856433	check 1856433
26	^ 2421	Aerial Cable	33375				33375	6943	26432	
27	^ 2422	Underground Cable								
28	^ 2423	Buried Cable	3422628	60360	15418		3467570	1637569	1830001	
29	^ 2424	Submarine Cable								
30	^ 2425	Deep Sea Cable								
31	^ 2426	Intrabuilding Network Cable								
32	2431	Aerial Wire								
33	2441	Conduit Systems								
34		<b>Totals</b>	6785282	138416	174638	15139	6734191	2953370	3780821	check 3780821

^ Subaccount of the account marked with a \*

## Analysis of Plant Held for Future Use

Year: 1998

Line No.	Location and Description of Property (a)	Date Included in Account 2002 (b)	Book Cost of Property at Beginning of Year (c)	Additions During the Year (d)	Retirements During the Year (e)	Transfers and Adjustments Charges and (Credits) (f)	Book Cost of Property at End of Year (g)
1	NONE						
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30	Totals (Sum L.1 to L.29)						

## Average Cost of Long Term Debt

Year: 1998

Line No.	Description (a)	Issue Date (b)	Maturity Date (c)	Principal Amount (d)	Gross Proceeds (e)	Net Proceeds (f)	Net Per \$100 (g)	Outstanding Per Balance Sheet (h)	Yield to Maturity (i)	Annual Net Cost (j)	Amortization of Premium or Discount (k)	Total Cost (%) (l)
1	U.S. of America	Aug-81	Aug-17	4087000				2422235		53000		2.19%
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	<b>Total</b>			4087000				2422235		53000		2.19%

## Cost of Preferred Stock

Year: 1998

Line No.	Description (a)	Date of Issuance (b)	Method of Offering (c)	Call Redemption Price (d)	Par Value Of Issue (e)	Gross Proceeds Amounts (f)	Net Proceeds Amounts (g)	Net Proceeds Per \$100 (h)	Cost of Money (i)	Principal Outstanding (j)	Annual Cost (k)	Embedded Cost (l)
1	NONE											
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	Totals (Sum L.1 to L.29)											

## Analysis of Common Stock

Year: 1998

Line No.	(a)	Avg. Number of Shares Outstanding (b)	Book Value (per share) (c)	Earnings (per share) (d)	Dividends (per share) (e)	Retention Ratio (f)	Market Price High (g) Low (h)	Price/Earnings Ratio (i)
1	Year Ended December 31:	1067	3660					
2								
3								
4								
5								
6								
7								
8	Month by Month Data:							
9	January							
10	February							
11	March							
12	April							
13	May							
14	June							
15	July							
16	August							
17	September							
18	October							
19	November							
20	December							
21								
22								
23								

\*PRIVATELY HELD STOCK\*-There is no market for this stock.

(NOT APPLICABLE-UNDER 5000 ACCESS LINES)

**Capital Stock and Funded Debt Reacquired or Retired During the Year** **Year: 1998**

Line No.	Description of Security (a)	Call or Retirement Date (b)	Number of Shares (c)	Principal Amount (d)	Reacquisition or Retirement Cost (e)	Gain or (Loss) (f)	Retirement or Reacquisition (g)
1	NONE						
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30	<b>Totals (Sum L.1 to L.29)</b>						

Company Name: Southern Montana Telephone Company

SCHEDULE 17

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(NOT APPLICABLE-UNDER 5000 ACCESS LINES)

Year: 1998

Total Company Expense Matrix

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
1	*	Network Support Expense						
2	^	Motor Vehicle Expense						
3	^	Aircraft Expense						
4	^	Special Purpose Vehicles Expense						
5	^	Garage Work Equipment Expense						
6	^	Other Work Equipment Expense						
7	*	General Support Expense						
8	^	Land and Building Expense						
9	^	Furniture and Artworks Expense						
10	^	Office Equipment Expense						
11	^	General Purpose Computers Expense						
12	*	Central Office Switching Expense						
13	^	Analog Electronic Expense						
14	^	Digital Electronic Expense						
15	^	Electro-Mechanical Expense						
16		Operator Systems Expense						
17	*	Central Office Transmission Expense						
18	^	Radio Systems Expense						
19	^	Circuit Equipment Expense						
20	*	Information Origination/Termination Expense						
21	^	Station Apparatus Expense						
22	^	Large Private Branch Exchange Expense						
23	^	Public Telephone Terminal Equipment Exp.						
24	^	Other Terminal Equipment Expense						
25	*	Cable and Wire Facilities Expense						
26	^	Poles Expense						
27	^	Aerial Cable Expense						
28	^	Underground Cable Expense						
29	^	Buried Cable Expense						
30	^	Submarine Cable Expense						
31	^	Deep Sea Cable Expense						
32	^	Intrabuilding Network Cable Expense						
33	^	Aerial Wire Expense						
34		<b>Subtotals</b>						

^ Subaccount of the account marked with a \*.

Company Name: Southern Montana Telephone Company

SCHEDULE 17

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(NOT APPLICABLE-UNDER 5000 ACCESS LINES)

Year: 1998

**Total Company Expense Matrix**

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
35	^	6441 Conduit Systems Expense						
36		6510 Other Property Expenses						
37	*	6530 Network Operations Expense						
38	^	6531 Power Expense						
39	^	6532 Network Administration Expense						
40	^	6533 Testing Expense						
41	^	6534 Plant Operations Expense						
42	^	6535 Engineering Expense						
43		6540 Access Expense						
44		6561 Depreciation - Telecomm. Plant in Service						
45		6562 Depreciation-Prop. for Future Telecom. Use						
46		6563 Amortization Expense - Tangible						
47		6564 Amortization Expense - Intangible						
48		6565 Amortization - Other						
49	*	6610 Marketing						
50	^	6611 Product Management						
51	^	6612 Sales						
52	^	6613 Product Advertising						
53		6621 Call Completion Services						
54		6622 Number Services						
55		6623 Customer Services						
56		6711 Executive						
57		6712 Planning						
58		6721 Accounting and Finance						
59		6722 External Relations						
60		6723 Human Relations						
61		6724 Information Management						
62		6725 Legal						
63		6726 Procurement						
64		6727 Research and Development						
65		6728 Other General and Administrative						
66		6790 Provision for Uncollectible Notes Receivable						
67		<b>Totals</b>						

^ Subaccount of the account marked with a \*.



Company Name: Southern Montana Telephone Company

(NOT APPLICABLE-UNDER 5000 ACCESS LINES)

SCHEDULE 18

Page 1 of 2

Year: 1998

Total State Expense Matrix

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
1	*	Network Support Expense						
2	^	Motor Vehicle Expense						
3	^	Aircraft Expense						
4	^	Special Purpose Vehicles Expense						
5	^	Garage Work Equipment Expense						
6	^	Other Work Equipment Expense						
7	*	General Support Expense						
8	^	Land and Building Expense						
9	^	Furniture and Artworks Expense						
10	^	Office Equipment Expense						
11	^	General Purpose Computers Expense						
12	*	Central Office Switching Expense						
13	^	Analog Electronic Expense						
14	^	Digital Electronic Expense						
15	^	Electro-Mechanical Expense						
16		Operator Systems Expense						
17	*	Central Office Transmission Expense						
18	^	Radio Systems Expense						
19	^	Circuit Equipment Expense						
20	*	Information Origination/Termination Expense						
21	^	Station Apparatus Expense						
22	^	Large Private Branch Exchange Expense						
23	^	Public Telephone Terminal Equipment Exp.						
24	^	Other Terminal Equipment Expense						
25	*	Cable and Wire Facilities Expense						
26	^	Poles Expense						
27	^	Aerial Cable Expense						
28	^	Underground Cable Expense						
29	^	Buried Cable Expense						
30	^	Submarine Cable Expense						
31	^	Deep Sea Cable Expense						
32	^	Intrabuilding Network Cable Expense						
33	^	Aerial Wire Expense						
34		<b>Subtotals</b>						

^ Subaccount of the account marked with a \*.

Company Name: Southern Montana Telephone Company

**SCHEDULE 18**

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(NOT APPLICABLE-UNDER 5000 ACCESS LINES)

**Total State Expense Matrix**

**Year:1998**

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
35	^	Conduit Systems Expense						
36		Other Property Expenses						
37	*	Network Operations Expense						
38	^	Power Expense						
39	^	Network Administration Expense						
40	^	Testing Expense						
41	^	Plant Operations Expense						
42	^	Engineering Expense						
43		Access Expense						
44		Depreciation - Telecomm. Plant in Service						
45		Depreciation-Prop. for Future Telecom. Use						
46		Amortization Expense - Tangible						
47		Amortization Expense - Intangible						
48		Amortization - Other						
49	*	Marketing						
50	^	Product Management						
51	^	Sales						
52	^	Product Advertising						
53		Call Completion Services						
54		Number Services						
55		Customer Services						
56		Executive						
57		Planning						
58		Accounting and Finance						
59		External Relations						
60		Human Relations						
61		Information Management						
62		Legal						
63		Procurement						
64		Research and Development						
65		Other General and Administrative						
66		Provision for Uncollectible Notes Receivable						
67		<b>Totals</b>						

^ Subaccount of the account marked with a \*.

**Pension Costs**

Year: 1998

1	Plan Name - NTCA Retirement and Security Plan			
2	Defined Benefit Plan? _____	Defined Contribution Plan? _____		
3	Actuarial Cost Method? _____	IRS Code: _____		
4	Annual Contribution by Employer: <u>50240</u>	Is the Plan Over Funded? _____		
5				
	Item	Current Year	Last Year	% Change
6	<b>Change in Benefit Obligation</b>			
7	Benefit obligation at beginning of year			
8	Service cost			
9	Interest Cost			
10	Plan participants' contributions			
11	Amendments			
12	Actuarial Gain			
13	Acquisition			
14	Benefits paid			
15	Benefit obligation at end of year			
16	<b>Change in Plan Assets</b>			
17	Fair value of plan assets at beginning of year			
18	Actual return on plan assets			
19	Acquisition			
20	Employer contribution			
21	Plan participants' contributions			
22	Benefits paid			
23	Fair value of plan assets at end of year			
24	<b>Funded Status</b>			
25	Unrecognized net actuarial loss			
26	Unrecognized prior service cost			
27	Prepaid (accrued) benefit cost			
28				
29	<b>Weighted-average Assumptions as of Year End</b>			
30	Discount rate			
31	Expected return on plan assets			
32	Rate of compensation increase			
33				
34	<b>Components of Net Periodic Benefit Costs</b>			
35	Service cost			
36	Interest cost			
37	Expected return on plan assets			
38	Amortization of prior service cost			
39	Recognized net actuarial loss			
40	Net periodic benefit cost			
41				
42	<b>Montana Intrastate Costs:</b>			
43	Pension Costs			
44	Pension Costs Capitalized			
45	Accumulated Pension Asset (Liability) at Year End			
46	<b>Number of Company Employees:</b>			
47	Covered by the Plan	6	7	16.67%
48	Not Covered by the Plan			
49	Active	6	7	16.67%
50	Retired			
51	Deferred Vested Terminated			

## Other Post Employment Benefits (OPEBS)

Item	Current Year	Last Year	% Change
<b>1 Regulatory Treatment:</b>			
2 Commission authorized - most recent			
3 Docket number: _____			
4 Order number: _____			
5 Amount recovered through rates			
<b>6 Weighted-average Assumptions as of Year End</b>			
7 Discount rate			
8 Expected return on plan assets			
9 Medical Cost Inflation Rate			
10 Actuarial Cost Method			
11 Rate of compensation increase			
<b>12 List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged:</b>			
13			
14			
<b>15 Describe any Changes to the Benefit Plan:</b>			
16			
<b>17 TOTAL COMPANY</b>			
<b>18 Change in Benefit Obligation</b>			
19 Benefit obligation at beginning of year			
20 Service cost			
21 Interest Cost			
22 Plan participants' contributions			
23 Amendments			
24 Actuarial Gain			
25 Acquisition			
26 Benefits paid			
27 Benefit obligation at end of year			
<b>28 Change in Plan Assets</b>			
29 Fair value of plan assets at beginning of year			
30 Actual return on plan assets			
31 Acquisition			
32 Employer contribution			
33 Plan participants' contributions			
34 Benefits paid			
35 Fair value of plan assets at end of year			
<b>36 Funded Status</b>			
37 Unrecognized net actuarial loss			
38 Unrecognized prior service cost			
39 Prepaid (accrued) benefit cost			
<b>40 Components of Net Periodic Benefit Costs</b>			
41 Service cost			
42 Interest cost			
43 Expected return on plan assets			
44 Amortization of prior service cost			
45 Recognized net actuarial loss			
46 Net periodic benefit cost			
<b>47 Accumulated Post Retirement Benefit Obligation</b>			
48 Amount Funded through VEBA			
49 Amount Funded through 401(h)			
50 Amount Funded through Other _____			
51 TOTAL			
52 Amount that was tax deductible - VEBA			
53 Amount that was tax deductible - 401(h)			
54 Amount that was tax deductible - Other _____			
55 TOTAL			

**Other Post Employment Benefits (OPEBS) Continued**

	Item	Current Year	Last Year	% Change
1	<b>Number of Company Employees:</b>			
2	Covered by the Plan			
3	Not Covered by the Plan			
4	Active			
5	Retired			
6	Spouses/Dependants covered by the Plan			
7	<b>Montana</b>			
8	<b>Change in Benefit Obligation</b>			
9	Benefit obligation at beginning of year			
10	Service cost			
11	Interest Cost			
12	Plan participants' contributions			
13	Amendments			
14	Actuarial Gain			
15	Acquisition			
16	Benefits paid			
17	Benefit obligation at end of year			
18	<b>Change in Plan Assets</b>			
19	Fair value of plan assets at beginning of year			
20	Actual return on plan assets			
21	Acquisition			
22	Employer contribution			
23	Plan participants' contributions			
24	Benefits paid			
25	Fair value of plan assets at end of year			
26	<b>Funded Status</b>			
27	Unrecognized net actuarial loss			
28	Unrecognized prior service cost			
29	Prepaid (accrued) benefit cost			
30	<b>Components of Net Periodic Benefit Cccosts</b>			
31	Service cost			
32	Interest cost			
33	Expected return on plan assets			
34	Amortization of prior service cost			
35	Recognized net actuarial loss			
36	Net periodic benefit cost			
37	<b>Accumulated Post Retirement Benefit Obligation</b>			
38	Amount Funded through VEBA			
39	Amount Funded through 401(h)			
40	Amount Funded through other _____			
41	TOTAL			
42	Amount that was tax deductible - VEBA			
43	Amount that was tax deductible - 401(h)			
44	Amount that was tax deductible - Other			
45	TOTAL			
46	<b>Montana Intrastate Costs:</b>			
47	Pension Costs			
48	Pension Costs Capitalized			
49	Accumulated Pension Asset (Liability) at Year End			
50	<b>Number of Montana Employees:</b>			
51	Covered by the Plan			
52	Not Covered by the Plan			
53	Active			
54	Retired			
55	Spouses/Dependants covered by the Plan			

## Payments for Services to Persons Other Than Employees

Year: 1998

Line No.	Name of Recipient (a)	Nature of Service (b)	Total Company Cost (c)	Total State Cost (d)	Intrastate Cost (e)
1					
2	(NOT APPLICABLE - UNDER 5000 ACCESS LINES)				
3					
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46					
47					
48					
49	Total				

## Subscriber Line Usage Data

Year: 1998

Line No.	Description (a)	This Year (b)	% of Total (c)	Last Year (d)	% of Total (e)
1	Toll Usage:				
2	Interstate, InterLATA	2885020	54.18%	2864097	50.12%
3	Interstate, IntraLATA				
4	<b>Total Interstate Usage</b>	2885020	54.18%	2864097	50.12%
5	Intrastate, InterLATA	519887	9.76%	896892	15.70%
6	Intrastate, IntraLATA	1920107	36.06%	1953238	34.18%
7	<b>Total Intrastate Usage</b>	2439994	45.82%	2850130	49.88%
8	<b>Total Toll Usage</b>	5325014	100.00%	5714227	100.00%
9	Centrex				
10	Local				
11	<b>Total Minutes</b>	5325014	100.00%	5714227	100.00%

## Central Office and Access Line Statistics

Year: 1998

Line No.	Wire Center (a)	Type of Office (b)	Residential (c)	ISDN (d)	ADSL (e)	Lifeline Customers (f)	Residential LMS Customers (g)	Single Line Business (h)	Multi-Line Business (i)	Customer Owned Coin (j)	Company Owned Coin (k)	Other (l)	% of Lines w/ T. Tone (m)	Total Access Lines (n)
1	DIVIDE	DIGITAL	68			1		15			1		92.0%	84
2	GRANT	DIGITAL	95					12			1		98.2%	108
3	JACKSON	DIGITAL	198					34			2		86.7%	234
4	WISDOM	DIGITAL	192			1		48			1		90.9%	241
5	WISE RIVER	DIGITAL	215					32			1		87.7%	248
6														
7														
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30														
31														
32														
33	<b>Total</b>		768			2		141			6		4.555	915

NOTE: Additional blank schedules are being provided for your convenience.



## Central Office and Switch Information

Year: 1998

Line No.	Wire Center (a)	Office Configuration (Host, Remote, Stand alone) (b)	Type of Switch (c)	Switch Vendor/ Manufacturer (d)	Switch Model No. (e)	Switch Line Capacity (f)	Year Deployed (g)
1	406-267	REMOTE	DIGITAL	NTI	DMS-10	512	1992
2	406-832	REMOTE	DIGITAL	NTI	DMS-10	512	1983
3	406-689-S	REMOTE	DIGITAL	NTI	DMS-10	512	1983
4	406-689	HOST	DIGITAL	NTI	DMS-10	640	1983
5	406-834-J	REMOTE	DIGITAL	NTI	DMS-10	512	1983
6	406-834-T	REMOTE	DIGITAL	NTI	DMS-10	512	1983
7	406-681	REMOTE	DIGITAL	NTI	DMS-10	512	1983
8							
9							
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11							
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48							

NOTE: Additional blank schedules are being provided for your convenience.

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## Construction Budget - Montana

Year: 1999

Line No.	Description (a)	1999 (b)
1	<b>Central Office Assets:</b>	
2	COE Upgrade	259160
3		
4		
5		
6		
7		
8		
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26		
27	Total Switching and Central Office Projects over \$500,000	
28	Miscellaneous Central Office Projects not over \$500,000	259160
29	<b>Total Central Office Budget (Total of Line 27 &amp; Line 28)</b>	259160
30	<b>Other Projects over \$500,000:</b>	
31	Fiber Optic Cable Install	1100000
32		
33		
34		
35		
36		
37		
38		
39		
40		
41	Total Other Projects over \$500,000	1100000
42	Miscellaneous projects not over \$500,000	
43	<b>Total Construction Budget (Total of Lines 29, 41 &amp; 42)</b>	1359160

## Montana Employee Counts

Year: 1998

Line No.	Category (a)	Beginning of Year (b)	End of Year (c)
1	Executive	1	1
2	Office	3	3
3	Outside Plant/COE	3	2
4			
5			
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8			
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41			
42			
43	Totals (Sum of Lines 1 through 42)	7	6

\*NOT APPLICABLE\*-Not able to provide this information. Would require hiring outside consultants.

## Montana Composite Statistics

Year: 1998

Line No.	Account No.	Description (a)	Amount (b)
1		<b>Plant (Intrastate Only) (000 Omitted)</b>	
2	2001	Plant in Service	
3	2003 - 2004	Construction Work in Progress	
4	2005	Plant Acquisition Adjustments	
5	2002	Plant Held for Future Use	
6	1220	Materials & Supplies	
7		(Less):	
8	3100 - 3400	Depreciation & Amortization Reserves	
9	4360.2	Contributions in Aid of Construction	
10		<b>NET BOOK COSTS</b>	
11		<b>Revenues &amp; Expenses (Intrastate Only) (000 Omitted)</b>	
12	5000 - 5300	Operating Revenues	
13	6560	Depreciation & Amortization Expenses	
14		Federal & State Income Taxes	
15		Other Taxes	
16		Other Operating Expenses	
17		TOTAL Operating Expenses	
18		Net Operating Income	
19		Other Income	
20		Other Deductions	
21		<b>NET INCOME</b>	
22		<b>Access Lines in Service (Intrastate Only)</b>	
23		Residential Access Lines	
24		Business Access Lines	
25		PBX Access Lines	
26		Other Access Lines	
27		<b>Total Number of Access Lines</b>	
28		<b>Average Number of Calls Per Access Line</b>	
29		Local Calls	
30		Toll Calls (Intra- or Interstate)	
31		<b>Total Number of Calls Per Access Line (Total of Line 29 &amp; Line 30)</b>	
32		<b>Other Statistics (Intrastate Only)</b>	
33		Average Residential Monthly Bill	
34		Gross Plant Investment per Access Line	

**Depreciation - Montana Intrastate Regulated**

Year: 1998

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense \$ (d)
1	2112	Motor Vehicles	33.3%	12,760
2	2114	Special Purpose Vehicles		
3	2115	Garage Work Equipment		
4	2116	Other work Equipment	13.4%	19,704
5	2121	Buildings	3.4%	25,855
6	2122	Furniture		
7	2123.1	Office Support Equipment	9.0%	1,196
8	2123.2	Company Communications Equipment	7.7%	886
9	2124	General Purpose Computers	8.7%	6,342
10	2211	Analog Electronic Switching Equipment		
11	2212	Digital Electronic Switching Equipment	6.6%	67,846
12	2215	Step By Step Switching Equipment		
13	2215	Crossbar Switching Equipment		
14	2220	Operator System		
15	2231	Radio Systems		
16	2232	Circuit DDS		
17	2232	Circuit Digital	6.6%	49,636
18	2232	Circuit Analog		
19	2351	Public Telephone Terminating Equipment		
20	2362	Other Terminal Equipment		
21	2411	Poles		
22	2421	Aerial Cable Metallic		
23	2421	Aerial Cable Nonmetallic		
24	2422	Underground Cable Metallic		
25	2422	Underground Cable Nonmetallic		
26	2423	Buried Cable Metallic	4.0%	138,671
27	2423	Buried Cable Nonmetallic		
28	2424	Submarine Cable Metallic		
29	2424	Submarine Cable Nonmetallic		
30	2426	Intrabuilding Network Cable Metallic		
31	2426	Intrabuilding Network Cable Nonmetallic		
32	2431	Aerial Wire	4.0%	1,348
33	2441	Conduit Systems		
34				
35		<b>COMPOSITE TOTAL</b>		
36				
37	Have these rates been approved by the Commission? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO			
38				
39	If yes: _____ Docket Number _____ Order Number			
40				

## Montana Regulatory Capital Structure &amp; Costs

Year: 1998

Line No.	Description (a)	% Cap. Str. (b)	% Cost Rate (c)	Weighted Cost (d)
	<b>Commission Accepted - Most Recent</b>			
1	Docket Number _____			
2	Order Number _____			
3				
4	Common Equity			
5	Preferred Stock			
6	Long Term Debt			
7	Other			
8	<b>Total</b>			
9				
10	<b>Actual at Year End</b>			
11				
12	Common Equity			
13	Preferred Stock			
14	Long Term Debt			
15	Other			
16	<b>Total</b>			

## Network Access - Charges and Revenues

Year: 1998

Line No.	Description (a)	Access Charges Paid (b)	Access Revenues Received (c)
1	Montana - Total State		435474
2			
3	Montana - Intrastate		435474
4			
5	Montana - Intrastate Regulated		435474
6			
7			
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13			

## Affiliate Transactions - Products &amp; Services Provided to Utility

Year: 1998

Line No.	Affiliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Utility (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
1	North Central Data Coop.	Computer Service Bureau	Varies	58,226		58,226
2		(Billing, Acctg & Plant				
3		Software Maintenance)				
4	GWNW, Inc.	Consultants	Hourly Rate	29,023		29,023
5		(Cost Studies, Separations,				
6		Traffic Studies, Etc.)				
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29						
30	<b>TOTAL</b>			\$87,249		\$87,249

Company Name: Southern Montana Telephone Company

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# Affiliate Transactions - Products & Services Provided by Utility

Year: 1998

Line No.	Affiliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Affiliate (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
1	NONE					
2						
3						
4						
5						
6						
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28						
29						
30	TOTAL					



\*NOT APPLICABLE\*-Would require hiring of outside consultants to prepare separation cost study.

**Montana Intrastate Regulated Earned Rate of Return**

Year: 1998

Line No.	Description Rate Base (a)	This Year (b)	Last Year (c)	Percent Change (d)
1				
2	2001 Plant in Service			
3	2002 Prop. Held for Future Telecommunications Use			
4	3100-3200 (Less) Accumulated Depreciation			
5	<b>Plant in Service</b>			
6				
7	<b>Additions</b>			
8	1220 Materials & Supplies			
9	1280 Prepayments			
10	Other Additions			
11	<b>TOTAL Additions</b>			
12				
13	<b>Deductions</b>			
14	4100 Current Deferred Operating Income Taxes			
15	4320 Unamortized Operating Investment Tax Credits			
16	4340 Noncurrent Deferred Operating Income Taxes			
17	Customer Advances for Construction			
18	Other Deductions			
19	<b>TOTAL Deductions</b>			
20	<b>TOTAL Rate Base</b>			
21				
22	<b>Net Earnings</b>			
23				
24	<b>Rate of Return on Average Rate Base</b>			
25				
26	<b>Rate of Return on Average Equity</b>			
27				
28	Major Normalizing Adjustments & Commission			
29	<u>Ratemaking adjustments to Utility Operations</u>			
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43	<b>Adjusted Rate of Return on Average Rate Base</b>			
44				
45	<b>Adjusted Rate of Return on Average Equity</b>			

**Other Taxes Paid**

Year: 1998

Line No.	Description (a)	Last Year (b)	This Year (c)
1	Montana Telephone Company License Tax	1534	1459
2	Montana Public Service Commission Tax	940	864
3	Montana Consumer Counsel Tax	383	717
4	911 Emergency Telephone Fee		
5	Montana Telecommunications Access Service (TDD)		
6	Montana Corporate License Tax	15	15
7	Personal Property Tax **	40758	37391
8	Real Property Tax	77555	74346
9			
10	** Excludes Vehicle taxes		
11			
12	<b>Total</b>	121185	114792

Company Name: Southern Montana Telephone Company

**Universal Service Funds Received**

Year: 1998

Line No.	Description (a)	Last Year (b)	This Year (c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources	331881	281580
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	<b>Total</b>	331881	281580